



Petroleum Market Report

December 20, 1999

Energy Information Administration
Office of Oil & Gas

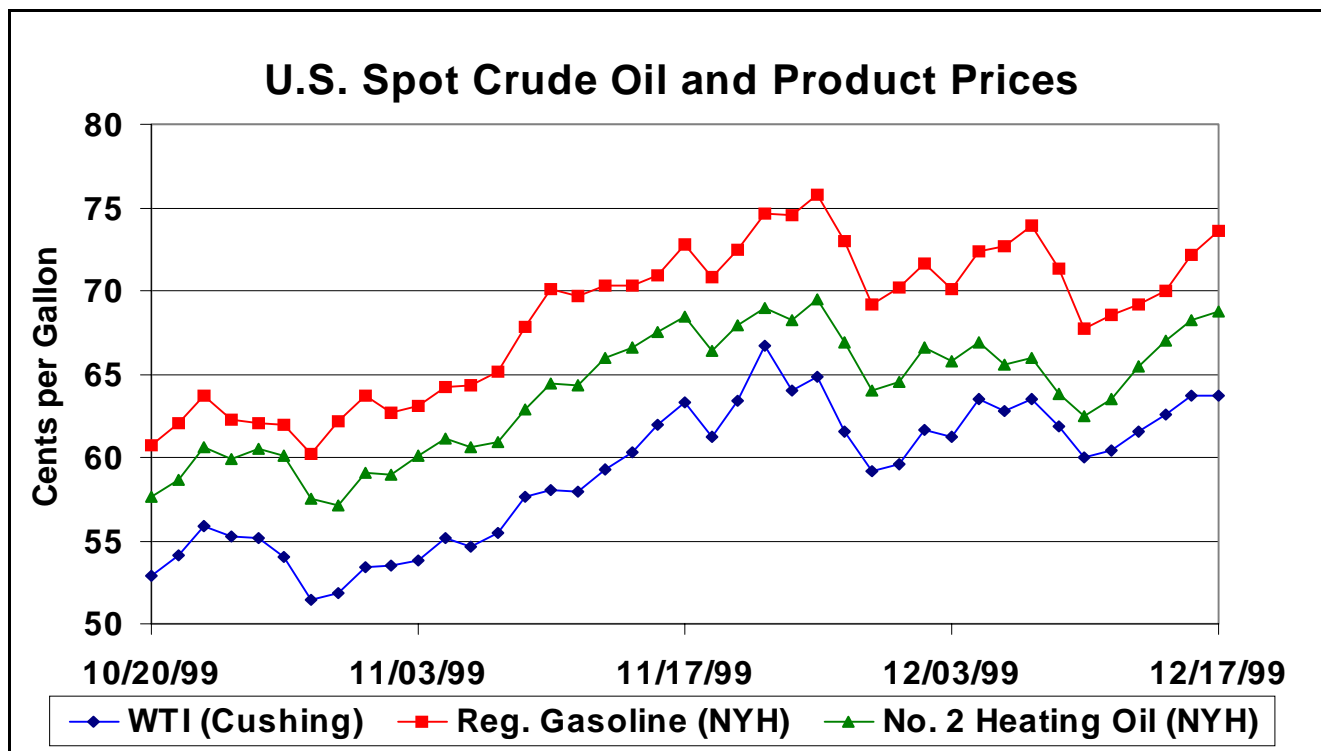
MARKET SUMMARY

U.S. spot and futures prices for crude oil and petroleum products moved steadily higher last week, as large stock draws and continued haggling between the United Nations Security Council and Iraq put upward pressure on markets. Prices recovered slowly from the sharp losses seen late in the previous week, and ended at or near their highest levels since before Thanksgiving. Product prices were stronger than those for crude oil, as generally weak refining margins induced several refiners to cut crude runs at some facilities.

Crude oil - prices gained gradually through Thursday, before flattening to end the week, as traders began to liquidate the January NYMEX futures contract ahead of its expiration on Monday. The upward run began as a market correction after prices dropped on December 9 and 10 in anticipation of renewed Iraqi exports. Bullish momentum grew with expectation, then confirmation, of substantial inventory declines in the weekly API and EIA reports. Although Iraqi oil exports reportedly began as scheduled, Iraq rejected a U.N. Security Council resolution calling for new weapons inspections and has announced its intention to limit exports in protest. Crude prices ended the week at their highest levels since late November, with WTI spot and futures near \$27 per barrel.

Gasoline - largely followed crude oil, with additional strength contributed by its own stock draws and, late in the week, by run cuts announced by several U.S. refiners. After a strong build the week before, U.S. gasoline inventories again dropped below their seasonal range in the week ending December 10.

Distillate - prices rose steadily all week, with gains led by crude oil, but augmented by stock draws and forecast colder weather. U.S. distillate stocks fell through December 10, ending over 23 million barrels lower than a year ago.



CHRONOLOGY OF RECENT MARKET EVENTS

- 12/17 - mixed** - crude oil prices flattened at the end of a week-long rise, while gasoline and distillates posted another moderate increase. Continued wrangling with the U.N. Security Council over weapons inspections blunted the impact of renewed exports by Iraq.
- 12/16 - rising** - gasoline led a fourth day of price increases across the board, as some refiners were reported cutting runs due to weak margins. WTI neared \$27 per barrel before closing at its highest level since before Thanksgiving.
- 12/15 - rising** - all prices rose further, continuing to offset the previous week's losses, after API and EIA both reported crude oil and product stockdraws generally even larger than expected. Iranian comments supporting continued production cuts added to the upward pressure on prices.
- 12/14 - rising** - prices climbed marketwide for a second day, led by heating oil, ahead of the weekly API and EIA supply reports. Despite the imminent return of Iraqi oil exports to world markets, expectations for crude oil and product stockdraws were the major influence on U.S. prices.
- 12/13 - rising** - spot and futures prices moved moderately upward in light trading, making slight headway against the sharp declines of the previous two days. Technical factors were largely cited for the reversal of direction, as prices had fallen near the low end of their recent trading range.
- 12/10 - falling** - crude oil and product prices fell for a second day, this time in response to U.N. Security Council approval of a new 6-month phase of Iraqi "oil-for-food" sales. The vote, though expected, briefly sent WTI spot and futures prices below \$25 per barrel.
- 12/9 - falling** - all prices dropped solidly, as markets reacted to comments by Energy Secretary Richardson that oil prices were too high, and that the U.S. would take action if necessary. Anticipation of a U.N. Security Council vote on Friday to extend Iraqi oil sales was also a major influence.
- 12/8 - rising** - prices closed higher across the board, after late shortcovering reversed earlier declines. Prices were lower for most of the day, focusing on large product stockbuilds and increasing indications that renewal of the U.N.-Iraq "oil-for-food" program is likely.
- 12/7 - mixed** - crude oil and distillate prices fell in profit-taking after Monday's gains, while gasoline rose slightly on rumored problems at a Gulf Coast refinery. An Iraqi statement that a full six-month phase of U.N.-sanctioned oil sales would be acceptable was a major factor.
- 12/6 - rising** - all prices climbed solidly, following Iraq's rejection of a one-week extension to the U.N.-sanctioned "oil-for-food" program. Further upward pressures came from a statement by Saudi Arabia's oil minister that there was no need to add production, reported 91% OPEC compliance to output cuts in November, and the shutdown of the Capline crude oil pipeline due to a leak.